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U.S. Banks: A Hit in Europe

DUN'S BUSINESS MONTH

June 1985 $3.00

Hot Tickets Of High Tech

Recession Next Year?

Reagan's Policy On Pollution

Also featuring

The Business News of the Month

Feature Departments

COMPANIES

Hot Tickets of High Tech 26
Cullinet Software, Intergraph Corp., Cray Research, Daisy Systems and KLA Instruments were named by a panel of a dozen technology experts as the most likely to succeed to the billion-dollar class.

ECONOMY

Are We Headed For a Recession Next Year? 36
Geoffrey Moore, Columbia University business cycle expert, thinks periodic recessions are built into the economy. He's betting on another one in 1986.

- **Dun's 5000: Business Purchases of PCs to Slow Down** 39

MONEY & MARKETS

The Waning of The Long-Term Bond 40
Activist corporate treasurers, spurred by high, rollercoaster interest rates, are shunning long-term, fixed-rate issues.

U.S. Banks A Hit in Europe 44
As the Europeans unshackle their financial systems, American bankers are winning Continental corporate customers.

WASHINGTON

Reagan's Policy On Pollution 48
An interview with new EPA administrator Lee Thomas. On enforcement, he's offering a carrot and a stick.

MANAGEMENT

The Shirt-Sleeve Consultants 52
Maverick troubleshooters solve problems for corporate line managers.

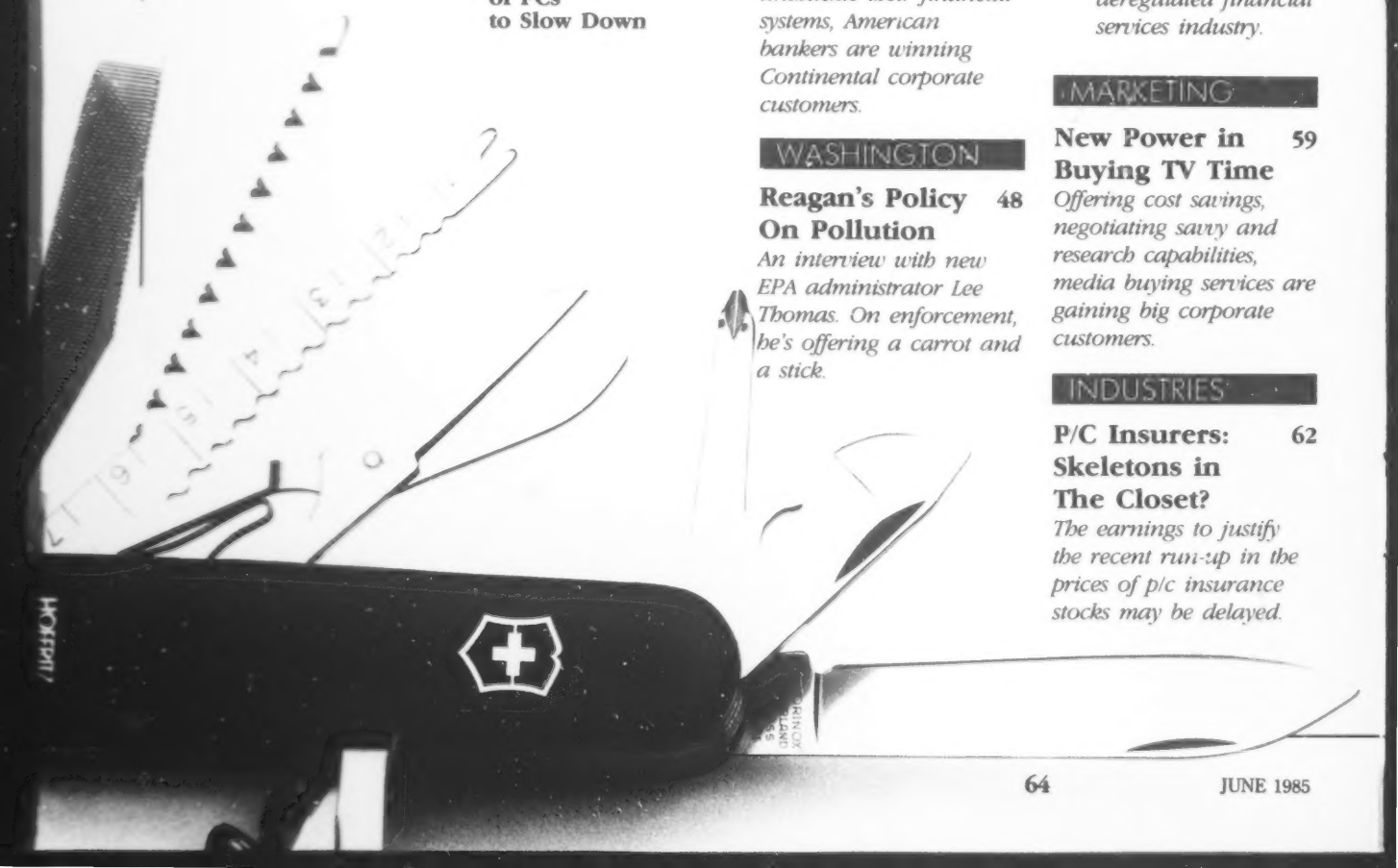
- **Morgello: One-on-One** 55
  John Hancock CEO John McElwee fears that insurers face an uphill battle to become part of a deregulated financial services industry.

MARKETING

New Power in Buying TV Time 59
Offering cost savings, negotiating savvy and research capabilities, media buying services are gaining big corporate customers.

INDUSTRIES

P/C Insurers: Skeletons in The Closet? 62
The earnings to justify the recent run-up in the prices of p/c insurance stocks may be delayed.



DUN'S BUSINESS MONTH

June 1985, Vol. 125, No. 6

40

The Business Month

WASHINGTON

- *Senate's budget slash* 13
- *Tax reform murky*
- *A corporate minimum tax?*
- *'Grey market' war*

ECONOMY

- *Bonn lays an egg* 14
- *Mixed indicators*

COMPANIES

- *Pentagon punishes vendors* 14
- *Coke's new formula*
- *Pan Am's Pacific pullout*
- *Mobil minus Ward*
- *New pipeline Goliath*
- *P&G's bedeviled logo*
- *Bids, mergers et al*

COMMUNICATIONS

- *Murdoch's Metromedia deal* 16

MONEY & MARKETS

- *Maryland's thrift crisis* 16
- *Thayer's stiff sentence*
- *Hutton's fraud rap*
- *Manny Hanny settles*

INTERNATIONAL

- *Third World debt debacle* 19

MANAGEMENT

- *CEO wages spurt* 20
- *Justice fights quotas*
- *Creative resumés*
- *Too many take the window*
- *Bounced from the best*

INDUSTRIES

- *GM bets on small cars* 21
- *Semiconductor slump*
- *AT&T's competitive clout*
- *Wheeling-Pitt in the pits*
- *Gulf Coast refinery blues*

20

LABOR

- *AA okays TWU bonuses* 24

MARKETING

- *Avon calling new tune* 24

NEW PRODUCTS

- *New Xerox strategy* 24

INTERNATIONAL

The Best-Selling Swiss Army Knife 64
Almost 6 million of the little red pocketknives are being exported each year. Buyers range from mountain climbers to astronauts to American Presidents.

DUN'S PROFILE

Farley's Fast Rise 82
The 42-year-old head of Chicago's Farley Industries has big plans for reshaping Northwest Industries—and his future.

Letters 6
Free trade debate.

Managers 9
Pioneer to lead Drexel.

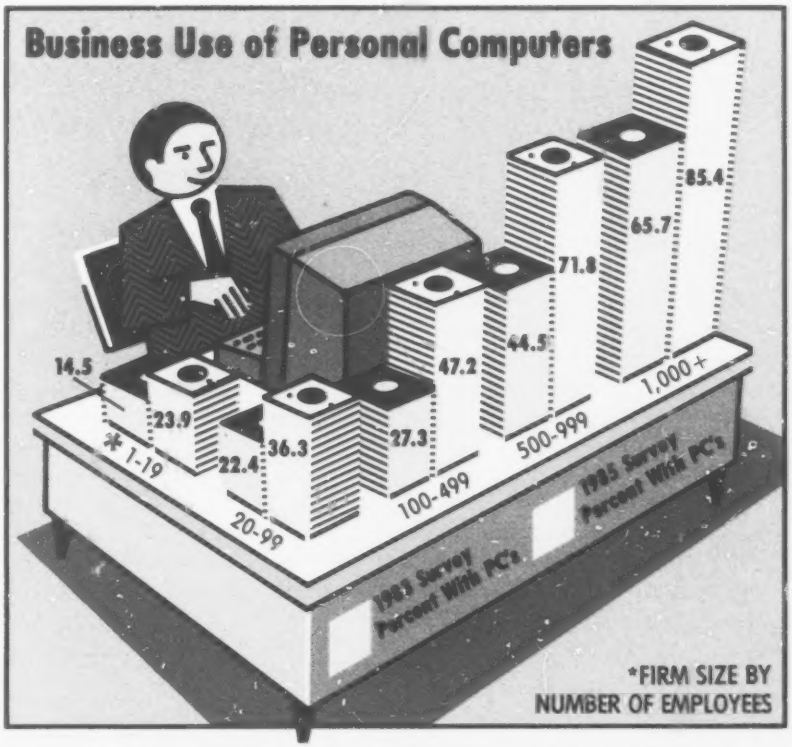
Modern Industry 85
Offices in moveable boxes.

Managing Information 67
The data processing managers are regaining control of corporate computer purchasing.

Personal Finance 91
Big winners among small companies.

Business Purchases Of PCs to Slow Down

The big potential for new sales is in smaller firms, says a Dun & Bradstreet survey.



While Wall Street worries about the outlook for personal computer sales, the last two years has seen a tremendous surge in business use of PCs, according to the latest DUN'S 5000 survey. Indeed, the installation of personal computers has far exceeded the forecast of companies surveyed in 1983. Companies that two years ago forecast that they would increase their ownership of personal computers by an impressive 250% actually turned in an increase of a whopping 600%, according to the latest survey. But this rate of growth is clearly not sustainable.

Personal computer usage has increased sharply in all sizes of companies (*chart*)—but the percentage of larger companies that have bought PCs in the last two years has grown even faster than that of the smaller ones. Nearly a quarter of firms with fewer than twenty employees currently use personal computers, compared with 14.5% in the June 1983 survey. In firms with 1,000 or more employees, usage surged from 65.7% to 85.4%.

The biggest untapped market, therefore, is among the smaller companies, where there is the least saturation (there are, of course, more companies in this category than any other). The survey shows that only 18% of the companies that have not purchased PCs yet plan to do so in the year ahead (compared with 83.2% of firms with PCs that plan to add additional work stations in the future). The challenge facing the vendors is to convince more of the smaller companies that there should be a PC in their future.

Thus, the marketing focus is shifting from expanding usage among large firms, which have been willing to devote considerable energy to learning sophisticated computer functions, to the smaller companies, which demand easy-to-use systems. In order to convert the smaller companies into users, the computer industry will have to provide relatively simple software, which handles many functions and sharply reduces the amount of sophistication required to be an effective user.

The survey also showed that those firms with personal computers have expanded applications beyond word processing to functions such as inventory control, credit analysis, sales contact list maintenance and even production uses. Thus, the outlook for the personal computer industry remains bright, although it is unlikely that the dramatic gains of the past three years will be sustained.—JOSEPH W. DUNCAN

Joseph W. Duncan, formerly Chief Statistician of the Office of Management and Budget and Chairman of the United Nations Statistical Commission, is Corporate Economist of The Dun & Bradstreet Corp.

MURRAY ON WALL STREET

Big Winners in Small Companies

"Even in a listless market, such as we've had recently, picking the stocks of small capitalization companies is a very good way to invest for superior returns," says Arthur E. Nicholas, chairman and chief investment officer of Nicholas-Applegate Capital Management Inc. of San Diego. Nicholas should know. By following this principle, he acquired a reputation as one of the hottest stock pickers in the business.

Specializing in small, aggressive growth companies, he has generated an annual compounded return of 29.9% as an investment manager the past eight years, first at San Diego Trust and Savings Bank, then at Security Pacific National Bank's Pacific Century Group and for the last year at his own firm, which currently manages $200 million in tax-exempt money. He has scored in recent years by getting in early on such winners as The Cannon Group, which makes class B movies, Price Club, the wholesale discounting chain, and Lorimar, the TV production company.

Nicholas believes in staying fully invested in companies with capitalizations ranging from $50 million-to-$500 million, with the emphasis on the smaller end of the scale. Over a fifty-year period, he says, studies show that such stocks have turned in the best performance.

To qualify for Nicholas' portfolio, however, they must be entering a period of "dramatically increasing profits," have little institutional ownership and be capable of exceeding the market averages in investment return. While he prefers to hold on to a stock through a company's growth phase, he will sell earlier if certain red flags pop up. If, say, forecasted earnings fail to materialize or the compelling reason for the original purchase begins to fade.

Nicholas: An annual compounded return of 29.9% by specializing in small companies with dramatically increasing profits

Like an explorer, Nicholas likes to discover unknown or barely noticed stocks before the big boys dive in. His rationale: When the institutions catch on to a stock, they usually move in like a herd and drive up the price—and his returns—to high levels. Thus, his portfolio of about forty stocks is composed of issues with an average institutional ownership of only 12%, he says.

He relies heavily on recommendations from a network of seventy regional brokerage houses around the country to ferret out exceptional prospects. "They know what's going on in their own backyards," Nicholas says. Then, he verifies and analyzes the recommendations by consulting industry analysts and company managers, competitors and suppliers.

In this year's market, Nicholas has uncovered a number of little-known companies in the technology sector, which he believes is reviving nicely. He expects these companies to produce spectacular earnings increases of from 50%-to-100% between this year and next.

Nicholas is particularly impressed with Bridge Communications, Inc., a Mountain View, California, manufacturer of high-performance, local-area network (LAN) systems used to link personal computers in offices. Terming Bridge the "Ferrari" of the fledging field, Nicholas says that it is stealing market share from older competitors and growing very rapidly. He estimates that the company will earn 45 cents a share this year and shoot up to 70 cents in 1986.

Britton Lee, Inc., a Los Gatos, California, producer of relational data base management systems, makes it possible for a user to call up cross-referenced data on a specific subject that may be located in different files in the system. The company has an advanced technology that dramatically increases the memory capacity of mainframe computers, Nicholas says, giving it a strong niche in a fast-growing market. He is anticipating 55 cents per share in earnings this year and 90 cents next year.

Novell, Inc. of Orem, Utah, produces software for local area networks that can be used with many personal computer brands. A spinoff from auto-parts-maker Safeguard Scientific Co. of King of Prussia, Pennsylvania, Novell has won a healthy share of market, says Nicholas, and he has doubled his investment in it. He expects earnings of 35 cents this year and up to 70 cents in 1986.

Another field that Nicholas likes at present is health maintenance organizations, a business that provided handsome returns for his investors early last year. He forecasts accelerated

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INVESTMENT UPDATE

Here's the current status of a number of investments, and a look at how they have fared over the past month and the past year.

INVESTMENT	(4/30/85) Recent Price or Yield	Value of $10,000 if invested: Month Earlier	Year Earlier
Common Stock (Index incl. capital gains and dividends reinvested)	$21.05/share	$ 9,972	$11,730
per cent change		−0.2%	+17.3%
Bonds (30-yr., 11¼% Treasury Bond)			
MARKET VALUE		$11,037	$10,982
ACCUMULATED INCOME	$100.78	$ 1,072	$ 1,278
TOTAL		$12,109	$12,260
per cent change		+21.0%	+22.4%
Money Market Fund	7.97%	$10,068	$10,966
per cent change		+0.7%	+9.7%
Gold (Krugerrands)	$333.00/oz.	$ 9,548	$ 8,362
per cent change		−4.6%	−16.9%
HOUSE PRICES	**Recent**	**Month Earlier**	**Year Earlier**
Existing House	$84,300	$88,500	$80,000
per cent change		−4.9%	+5.1%
New House	$98,600	$91,300	$92,400
per cent change		+7.4%	+6.2%

Sources: Vanguard Group Inc.; Salomon Brothers; Donoghue's Money Fund Report; Desk-Perera Fifth Avenue, Inc.; Federal Home Loan Bank Board.

earnings among a number of HMOs, as a result of their garnering a growing share of health care business. Among his current favorites are: San Francisco's Bay Pacific Health Corp., which he expect to earn 35 cents a share this year and 60 cents in 1986; Reno, Nevada's Sierra Health Services Inc., for which he estimates an earnings increase to $1.20 a share next year from 1985's estimated 80 cents a share; and Chicago's Health Care USA Inc., which he predicts will earn $1.45 in 1986, up from this year's estimate of 85 cents per share.

In addition, Nicholas has an eclectic list of stocks of companies that appeal to him because of the potential of their industry or product line. For example, he considers Davis Water & Waste Industries, Inc., of Thomasville, Georgia, one of the few pure plays involved in rebuilding and rehabilitating the nation's water infrastructure. The company makes a line of sewer pipes, fittings, valves and other construction materials and is expected to earn $1.05 this year and $1.55 a share next.

Another is Westwood One Inc., a packager of radio programs complete with commercials, which is unique in its field. Headed for exceptionally rapid growth, Nicholas says Westwood One should rack up profits of $1.15 a share this year and $1.60 in 1986.

Nicholas also likes the clean balance sheet of Union Federal Savings & Loan Association of Los Angeles. Because he foresees a decline in short-term interest rates, he believes the S&L will earn $2.50 a share next year, double his estimate of $1.25 per share for this year. —T.J.M.

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